REAL ESTATE

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OUTLOOK

July 1990

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- The national economy enters the second half of the year with its seven-and-a-half year expansion at risk. Not since 1986 has the economy looked so prone to a recession: growth is low, housing starts are flagging, job growth is slowing, corporate profits are anemic, and fiscal and monetary policies appear restrictive. Yet several key indicators suggest that growth will continue, albeit slowly, and consequently the NAR forecast calls for less than moderate growth through 1992.
- Consumption spending, the largest component of GNP, has slowed significantly, and GNP has followed suit. It is estimated that consumption grew at an inflation-adjusted average annual rate of only 1.0 percent between October 1989 and June 1990. In the previous nine months, from January through September 1989, consumption spending had grown at a 3.2 percent pace.
- The forecast assumes that the Federal Reserve eases a bit in the second half of 1990, temporarily giving greater weight to avoiding a recession than to cutting inflation. The second quarter is expected to see consumer prices rise about 4.0 percent annually, halving the first quarter's 8.1 percent growth rate. Despite the sluggish economy, consumer prices are expected to grow near a 4 percent pace through the end of the forecast.
- Starts of privately-owned housing units dropped to an annual rate of 1.207 million units in May. This pace is 1.4 percent below April's annual rate of 1.224 million units and 7.7 percent below the May 1989 annual rate of 1.308 million units. Single-family starts fell to an annual rate of 896,000 units in May, suggesting that this series will have its weakest quarter since the recession year of 1982.
- Sales of new homes broke a string of five consecutive declines in May by increasing 0.4 percent to an annual rate of 532,000 units. The April figure, initially calculated at 546,000 units, was revised down to 530,000 units. New home sales are now 23 percent below the sales rate recorded during the its recent peak in November.

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NATIONAL ASSOCIATION OF REALTORS®
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MASTERS OF THE HOUSE

by
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Chief Economist
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Charge 'em for the dice; extra for the mice
Two percent for looking in the mirror twice
Here a little slice; there a little cut
Three percent for sleeping with the window shut

When it comes to fixin' prices,
There are lots of tricks he knows.
How it all increases, all those bits and pieces
It's amazing how it grows.

This little bit of nonsense from *Les Miserables* can be applied to several aspects of the economy and the financial sector. It might be posed as a hymn to all the high-livers and fast buck artists whose personal greed is now being visited on the American public in the form of the Savings and Loan bailout. Alternatively, it could be a selection from the training manual for those legions of bright, eager MBAs who turned the Wall Street of the Eighties into their personal gold mine until the crash forced them to grow up and see the world as it really is.

But now that the "T" word has escaped the President's mouth, and it's open season on tax schemes, what it really presents is a frightening view of a future dominated by the Puritans who feel that greed ought to be punished severely and that the last decade's excesses must be paid for with this decade's overtaxation. A national sales tax? Value-added taxes? See above for details.

With the costs of the savings and loan debacle, the persistent Federal budget deficit and the continuing involvement of the Congress in any and all issues, not even the most unimaginably large "peace dividend" can avert the legislation of new taxes. And as Oliver Wendell Holmes suggested, "To tax and be fair, like to love and be wise, is not given to man." The best we can hope for is that the basic notions of tax fairness find themselves into the law.

Ideally, taxes are used to fund the provision of goods--like national defense--that can't be supplied through the private market or for goods--like education and health care--whose consumption would be limited by the free market. They are best when they least distort economic incentives, when they are easiest to collect and when they inspire compliance. Thus, the income tax meets the criteria for a "good" tax, while inheritance taxes fail.

But taxes can also be used to change behavior, and that appears to be where we are now. The buzzword in Washington is "competitiveness": how can we catch the Japanese and keep up with the emerging superpower that is a united Europe? Here their tax factor enters the equation, because taxes that fall more heavily on income and less on wealth will encourage saving and investment. That investment will result in a more modern, more competitive economy.

Moreover, there are certain behaviors we want to discourage, like importing oil or consuming tobacco. Specific sales taxes will increase the cost of these goods and thus reduce their consumption. Yes, these taxes distort economic behavior, but that is their very purpose. The well-remembered horrors of the oil embargoes of the Seventies and the mounting evidence of deleterious health effects of alcohol and tobacco make the case for "sin taxes" very persuasive.

The arguments of economists may look elegant, but their chief virtue is that they allow the Congress' desire to raise revenue in the least politically damaging manner. A tax package consisting of a slight increase in the individual income tax (by popping the high income "bubble"), savings and investment incentives (a liberalization of capital gains and passive loss rules?) and increases in excise taxes meets the needs of the Congress, raises revenues to cut the deficit and can be defended by reference to the scribblings of all sorts of semi-reputable economists.

Can this economy stand a tax increase without recession? At this time, economic growth is weak and likely to remain so. The impact of a tax increase will be mitigated somewhat by the declining interest rates that will accompany a cut in the Federal deficit and a reduction of the government's demand for credit. On balance, there will be a marginal decline in economic growth, but not nearly enough to push us into recession. In fact, the cost increases levied on businesses by such a tax package would be less than those imposed by the new clean air law.

The danger here is that once the tax dialogue is opened seriously, all sorts of crackpot tax ideas can filter in. The prospect of a national sales tax or a value added tax is nothing short of frightening. Both have shown themselves in European economies to be inflationary and stagnating. We simply cannot afford to levy on ourselves a tax that stifles growth, pushes up prices and amounts to, in the words of John Lennon's taxman, "One for you, nineteen for me".

This is not an idle threat. The excesses of the savings and loan industry and the bad reputation of the go-go financial markets of the Eighties will produce a backlash, particularly among politicians whose best chances for election lie in appearing in the sackcloth and ashes of the tax reformer. So we could see serious discussion of moving to a tax regime that would devastate the prospects of the economy for steady growth through the Nineties. To do this in an effort to atone for the sins of the Eighties would be the height of foolishness. After all, greed may not be as good as Gordon Gekko would have us believe, but it's not a capital offense.

Outlook for the Economy and Real Estate

The economy enters the second half of the year with its seven-and-a-half year expansion at risk. Not since 1986 has the economy looked so prone to a recession: growth is low, housing starts are flagging, job growth is slowing, corporate profits are anemic, and fiscal and monetary policies appear restrictive. Yet several key indicators suggest that growth will continue, albeit slowly, and consequently the NAR forecast calls for less than moderate growth through the remainder of 1990 and no recession through 1992. In the recently-completed second quarter of 1990, real GNP is projected to have grown at a 1.7 percent annual rate, just below the 1.9 percent pace of the first quarter.

Even the second quarter's low rate of growth may overstate the economy's current strength. Of the five major components of real GNP, growth in inventories appears to have accounted for well over half of the growth in the quarter. The remaining GNP components -- consumption, investment, net exports and government spending, and known collectively as final sales -- are expected to have been quite weak. The government's first reading on economic growth during the second quarter will be available later this month.

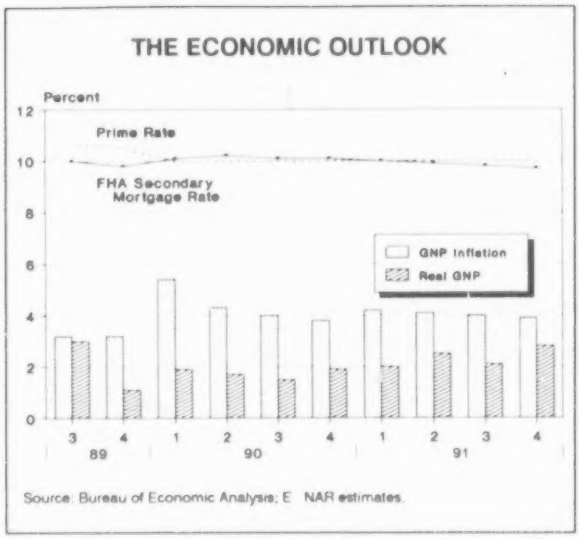
Final Sales Weak in the Second Quarter

The chart to the right shows the relative weakness of economic growth excluding inventory gains. In 1989, for example, the economy grew 2.6 percent. Virtually all of this growth came from final sales, which contributed 2.5 percentage points. Growth in inventories supplied the remaining 0.1 percentage point. In the second quarter of 1990, by contrast, the economy is projected to have grown 1.7 percent, with final sales contributing only 0.7 percentage point to growth while inventories added 1.0 percentage point. Of the final sales components, government spending and investment acted as a drag during the quarter, while consumer spending and net exports contributed some support.

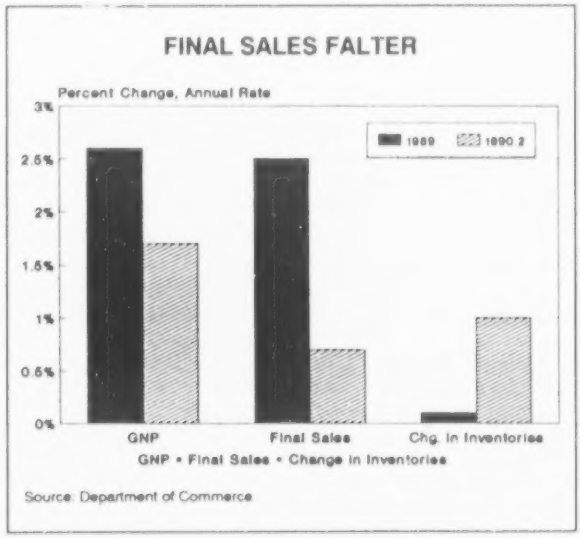
This pattern of growth is troubling because, by its very nature, it is not sustainable. While some inventory building is healthy and expected, a high level of growth in inventories is incongruent with weak final sales, and production cutbacks may result. Yet industrial production has recorded strong gains in four of the past five months, including a 0.4 percent increase in June. Auto production has made important contributions, as automakers appear to be building inventories in advance of labor negotiations later this year. Of course, even without a strike, this may lead to less production later. Auto sales, meanwhile, have been stronger, running at a 7.3 million pace in early July and 8.1 million in late June.

Consumers Are Braking

Consumption spending, the largest component of GNP, has slowed significantly, and GNP has followed suit. It is estimated that consumption grew at an inflation-adjusted average annual rate of only 1.0 percent between October 1989 and June 1990. In the previous nine months, from January through September 1989, consumption spending grew at a 3.2 percent pace. One ominous sign of a recession -- three consecutive monthly



Source: Bureau of Economic Analysis; E. NAR estimates.



Source: Department of Commerce

Source: Department of Commerce

declines in retail sales between March and May -- was countered by June's 0.5 percent gain. The forecast reflects the cautious mood by holding consumption growth to a 1.9 percent rate in both 1990 and 1991.

Of the components of GNP, consumer spending often provides an important cushion when other sectors of the economy, such as investment or net exports, lose steam. Without this safety margin, the expansion becomes increasingly fragile.

Job Creation Slows, But Labor Market Remains Firm

Since 1983, the private sector has created nonfarm jobs at an average pace of almost 225,000 jobs a month. This pace has slowed appreciably over the past year and a half. Manufacturing employment continues to be the hardest hit, losing another 30,000 jobs in June. Since March, 1989, factory payrolls are down by 335,000 workers. But overtime hours worked picked up in June, a signal that job losses may moderate. In addition, both the unemployment rate and the average workweek are signalling firmness, as the former dropped 0.1 percentage point to 5.2 percent and the latter edged up 0.1 hour.

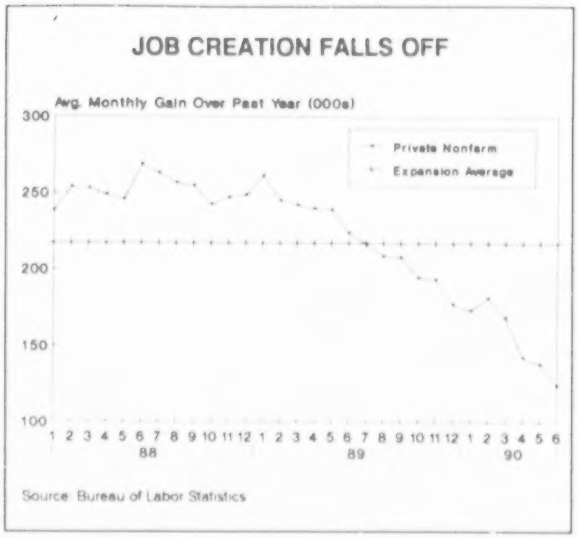
The Fed's Fight Against Inflation

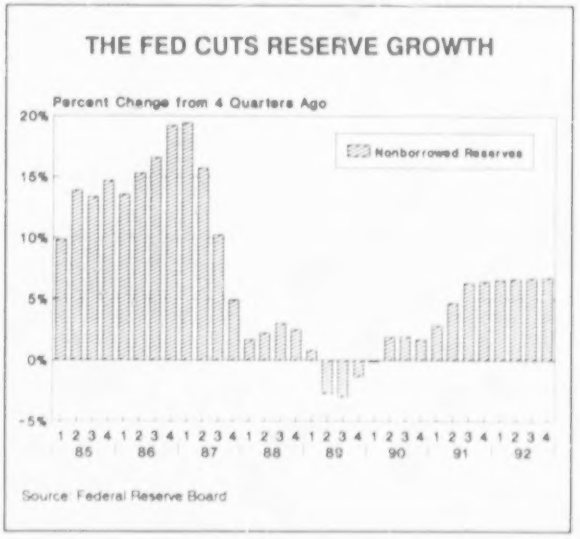
In an effort to trim the inflation rate, the Federal Reserve has tightened monetary policy over the past couple of years. The chart at right shows the year-ago growth in nonborrowed reserves in the banking system. Slower reserve growth, all else being equal, limits the ability of financial institutions to make loans. Short-term interest rates generally rise to compensate for the lower volume of loanable funds, and, over time, growth in the economy slows. And in fact, reserve growth was slowed, short-term interest rates rose, and the economy decelerated. Inflation, however, has remained in the 4 - 5 percent range -- just where it was before the Fed began its tightening. The forecast assumes the Fed eases a bit in the second half of 1990, temporarily giving greater weight to avoiding a recession than cutting inflation.

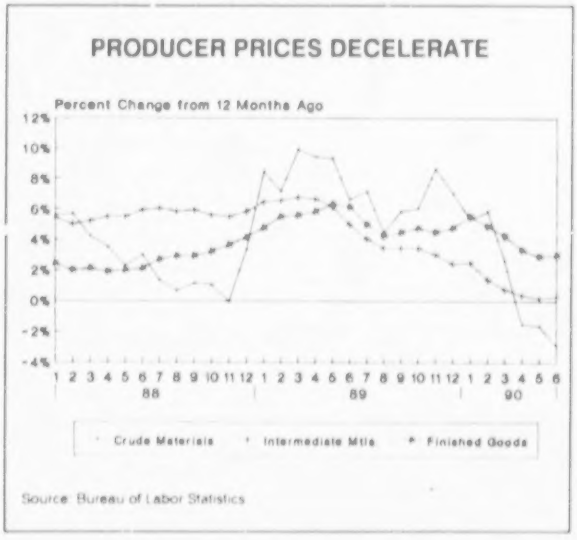
The second quarter is expected to see consumer prices rise about 4.0 percent annually, halving the first quarter's 8.1 percent growth rate. Despite the sluggish economy, consumer prices are expected to grow near a 4 percent pace each quarter through the end of the forecast.

Good news regarding inflation can be found in the recent Producer Price Index (PPI) data. The chart at right shows the year-ago growth rate of the PPI's three major components. For the first time since 1988, the index for finished goods has fallen below the 4 percent year-ago growth rate. More significantly, the growth in the index for intermediate goods has slid from about 6 percent a year ago to almost zero percent today. As these intermediate goods work their way through the production process, the inflationary pressure on finished goods should ease.

The easing of inflation in the PPI is expected to be countered by continued higher costs for services, labor, and imported goods, all of which have only a minimal impact on the PPI. Additionally, as the economy recovers from its current lethargy, it is anticipated that PPI growth will return to the 4 to 5 percent band.


JOB CREATION FALLS OFF
Avg. Monthly Gain Over Past Year (000s)
300
250
200
150
100
Private Nonfarm
Expansion Average
1 2 3 4 5 6 7 8 9 10 11 12 1 2 3 4 5 6 7 8 9 10 11 12 1 2 3 4 5 6
88
89
90
Source: Bureau of Labor Statistics





HOUSING STARTS

(Seasonally Adjusted Annual Rates, in Thousands)

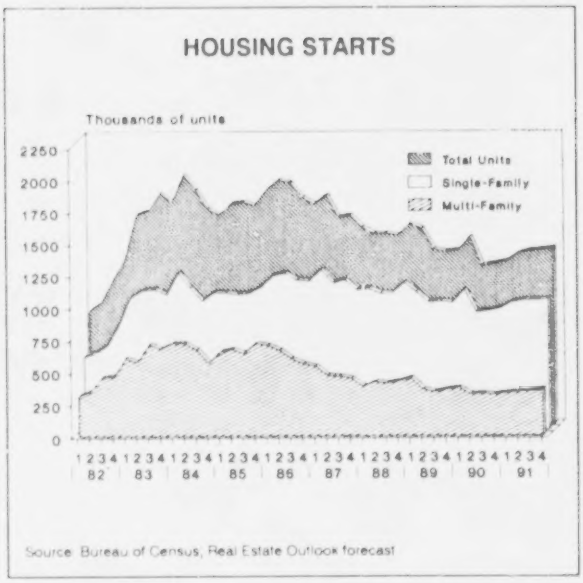
National Data

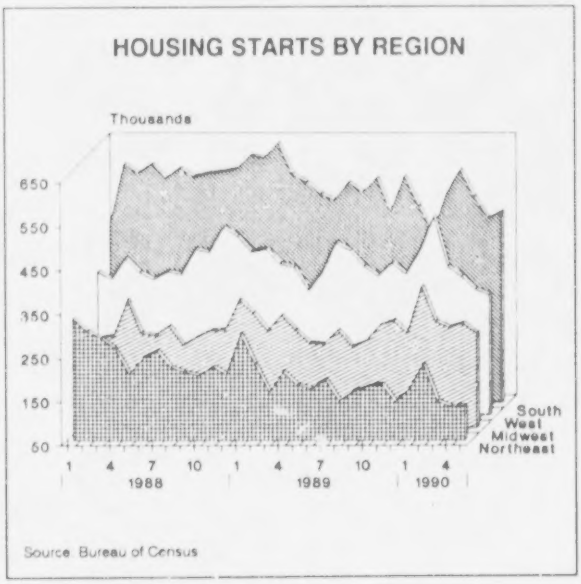
	Total	SF	2-4	5+
May 1989	1,36c	977	42	283
Jan 1990	1,568	1,099	53	416
Feb 1990	1,488	1,154	42	292
Mar 1990	1,307	996	35	276
Apr 1990	1,224	905	54	265
May 1990	***1,207***	***896***	***36***	***275***
Annual Averages:				
1988	1,495	1,088	59	348
1989	1,389	1,012	56	322
Percent Changes in May 1990 since:				
May 1989	-7.7	-8.3	-14.3	-4.8
Apr 1990	-1.4	-1.0	-33.3	3.8

Regional Data

	Northeast	Midwest	South	West
May 1989	176	244	513	375
Jan 1990	168	373	526	504
Feb 1990	224	293	581	390
Mar 1990	139	280	520	368
Apr 1990	127	289	471	337
May 1990	***129***	***266***	***486***	***326***
Annual Averages:				
1988	243	274	574	405
1989	184	272	537	396
Percent Changes in May 1990 since:				
May 1989	-26.7	9.0	-5.3	-13.1
Apr 1990	1.6	-8.0	3.2	-3.3

Source: Bureau of the Census; Construction Reports, Series C20


HOUSING STARTS
Thousands of units
2250
2000
1750
1500
1250
1000
750
500
250
0
Total Units
Single-Family
Multi-Family
1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4
82 83 84 85 86 87 88 89 90 91
Source: Bureau of Census, Real Estate Outlook forecast



Starts of privately-owned housing units dropped to an annual rate of 1.207 million units in May. This pace is 1.4 percent below April's annual rate of 1.224 million units and 7.7 percent below the May 1989 annual rate of 1.308 million units. Single-family starts fell to an annual rate of 896,000 in May, suggesting that single-family starts will have their weakest quarter since the final quarter of 1982, just before the U.S. economy began its current expansion. Multi-family units in May were started at a rate 6 percent lower than in May 1989. Construction in May 1990 in the 2 to 4 units category took place at a 36,000 unit annual pace, only 65 percent of rate recorded last year. Weakness in starts activity is expected to continue as builders are encountering scarce capital, due in large part to provisions of the the thrift bailout plan.

The downturn is concentrated in the Northeast, where housing was started at a 26.7 percent slower pace in May 1990 than in May 1989. This region has experienced a dropoff of 47,000 units in the past year, accounting for a little less than half of the entire U.S. decline in housing starts. The West region was down even more -- 49,000 units -- but the decline comes off a larger base, so that the percentage decline, 13.1 percent, is less than half the Northeast's. The South is also off its year-ago pace, but only by 5.3 percent. Only the Midwest has improved its rate of starts in the past year, upping starts 22,000 units to 266,000 in May 1990. Relative to their rates in April, the Northeast showed a mild upturn of 1.6 percent and the South expanded by 3.2 percent.

NEW HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

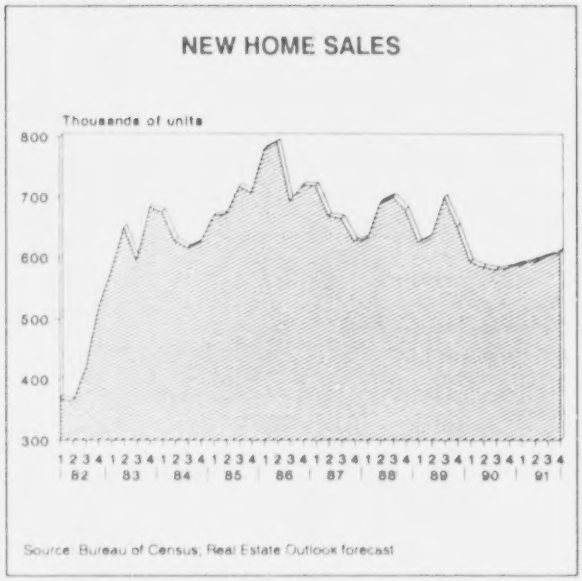
National Data

		Mo. Ago % Chg.	Yr. Ago % Chg.
May 1989	651	6.7	-4.1
Jun 1989	646	-0.8	-9.8
Jul 1989	741	14.7	5.7
Aug 1989	719	-3.0	1.0
Sep 1989	638	-11.3	-7.7
Oct 1989	636	-0.3	-11.4
Nov 1989	687	8.0	5.7
Dec 1989	633	-7.9	-5.4
Jan 1990	613	-3.2	-12.9
Feb 1990	606	-1.1	-2.7
Mar 1990	559	-7.8	0.5
Apr 1990	530	-5.2	-13.1
May 1990	***532***	***0.4***	***-18.3***
Annual Averages:			
1988	676		1.0
1989	654		-3.3

Regional Data

	Northeast	Midwest	South	West
May 1989	88	99	269	195
Nov 1989	96	117	263	211
Dec 1989	92	89	245	206
Jan 1990	94	104	226	189
Feb 1990	68	84	265	189
Mar 1990	86	94	221	157
Apr 1990	94	89	201	145
May 1990	***84***	***96***	***199***	***152***
Annual Averages:				
1988	101	97	276	202
1989	87	102	260	201
Percent Changes in May 1990 since:				
May 1989	-4.5	-3.0	-26.0	-22.1
Apr 1990	-10.6	7.9	-1.0	4.8

Source: Bureau of the Census; Construction Reports, Series C25



Source: Bureau of Census; Real Estate Outlook forecast

Source: Bureau of Census

Sales of new homes broke a string of five consecutive declines in May by increasing 0.4 percent to an annual rate of 532,000 units. The April figure, initially calculated at 546,000 units, was revised down to 530,000. The 1.6 percent decline in April follows a revised 8.4 percent decline in March. New home sales are now 23 percent below the sales rate recorded during its recent peak in November. Sluggish economic growth, tightening credit availability, and declining affordability have all hurt new homes sales over the past several months.

Although housing starts have had their greatest declines in the Northeast, the steepest drop-off in the sales of new homes over the past year has been in the South. New homes sold at a 199,000 annual rate in May, 26 percent below its year-ago level of 269,000 units. The West almost matched this with a 22.1 percent decline, falling to 152,000 units. The Northeast, meanwhile, dropped to 84,000 units, a decline of 4.5 percent. The Midwest recorded the smallest percentage decline with a 3 percent loss to 96,000 new homes.

May proved to be a good month for the Midwest and the West, each of which gained ground on April's sales rates. The Midwest was up 7.9 percent and the West was up 4.8 percent. The Northeast lost the momentum gained by April's 9.3 percent gain by falling back 10.6 percent. The new homes sales rate in the South fell for the third consecutive month to 199,000 units. Over this period, new home sales have been cut by 25 percent.

EXISTING SINGLE-FAMILY HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

National Data

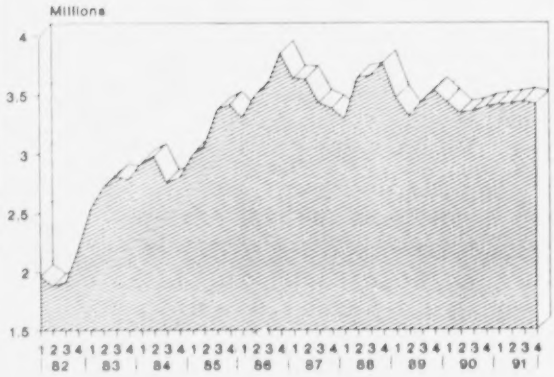
		Mo. Ago % Chg.	Yr. Ago % Chg.
May 1989	3,250	-5.5	-10.2
Jun 1989	3,330	2.5	-12.4
Jul 1989	3,380	1.5	-7.4
Aug 1989	3,440	1.8	-6.8
Sep 1989	3,510	2.0	-3.8
Oct 1989	3,490	-0.6	-5.2
Nov 1989	3,560	2.0	-4.0
Dec 1989	3,560	0.0	-9.2
Jan 1990	3,520	-1.1	-3.8
Feb 1990	3,400	-3.4	-4.2
Mar 1990	3,400	0.0	-0.9
Apr 1990	3,330	-2.1	-3.2
May 1990	***3,290***	***-1.2***	***1.2***
Annual Averages:			
1988	3,594		-1.9
1989	3,440		-4.3

Regional Data

	Northeast	Midwest	South	West
May 1989	600	840	1220	590
Dec 1989	580	980	1390	610
Jan 1990	560	940	1400	570
Feb 1990	560	890	1310	650
Mar 1990	500	910	1360	630
Apr 1990	520	920	1300	580
May 1990	***520***	***880***	***1310***	***590***
Annual Averages:				
1988	673	929	1350	642
1989	589	919	1307	610
Percent Changes in May 1990 since:				
May 1989	-13.3	4.8	7.4	0.0
Apr 1990	0.0	-4.3	0.8	1.7

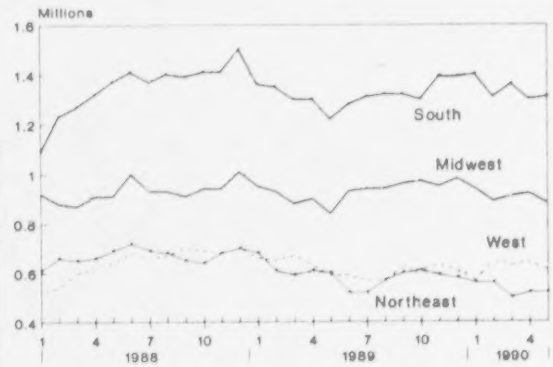
Source: Bureau of the Census; Construction Reports, Series C25

EXISTING HOME SALES



Source: NAR Economics & Research; Real Estate Outlook forecast

EXISTING HOME SALES BY REGION



Source: NAR Economics & Research

May marks the sixth consecutive month that the annual rate of existing home sales failed to increase. The sales rate fell another 1.2 percent in May from April, leading to a 7.6 percent decline over the past six months. Nevertheless, the May sales figure was 1.2 percent above the sales rate recorded in May 1989. Year-to-date, new homes are selling at a 3,390,000 annual rate, about 1.5 percent below 1989's sales figure of 3,440,000.

The supply of existing homes on the market edged up 1.5 percent during the month to 2,700,000 homes. This represents a 5.9 percent increase over the May 1989 figure. At the current sales rate, the months' supply of existing homes stands at 9.9 months, up over the past twelve months from 9.4 months. This inventory-to-sales ratio is currently at its highest level in the past twelve months.

The Northeast was unable to build upon April's 4.0 percent increase in existing home sales during May. The sales rate held steady at 520,000 homes. Both the South and West posted gains relative to April, growing 0.8 percent and 1.7 percent, respectively. Only the Midwest experienced a decline, slipping 4.3 percent.

Relative to a year ago, the South's sales rate picked up 7.4 percent and stood at 1,310,000 units in May. The Midwest has also posted a solid gain over May 1989 with a 4.8 percent gain to 880,000-units annually. The West showed no change over its year-ago figure, but the Northeast fell by 13.3 percent, or 80,000 units.

SINGLE-FAMILY HOME PRICES
(In Dollars)

National Data

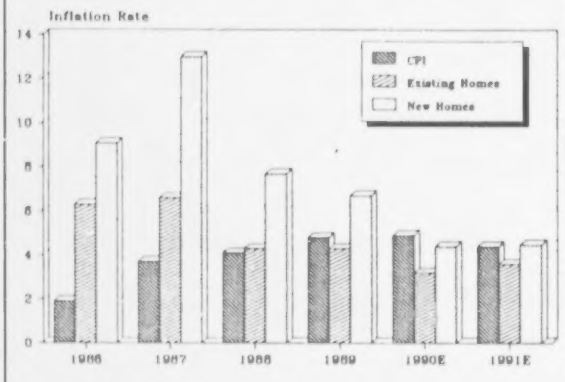
	Median		Average	
	Existing	New	Existing	New
May 1989	92,600	119,000	118,000	145,100
Jan 1990	96,300	125,200	120,000	151,700
Feb 1990	95,200	125,000	118,300	150,100
Mar 1990	96,300	119,400	119,500	144,100
Apr 1990	95,600	135,900	117,800	160,200
May 1990	***94,800***	***128,500***	***117,800***	***150,400***
Annual Averages:				
1988	89,300	112,500	112,800	138,300
1989	93,100	120,000	118,100	148,800
Percent Changes in May 1990 since:				
May 1989	2.4	8.0	-0.2	3.7
Apr 1990	-0.8	-5.4	0.0	-6.1

Regional Data

	Northeast	Midwest	South	West
May 1989	143,800	70,300	84,200	142,100
Jan 1990	147,100	75,600	85,300	144,400
Feb 1990	143,400	74,100	85,200	143,300
Mar 1990	148,800	75,500	86,000	141,800
Apr 1990	140,700	75,300	85,900	137,600
May 1990	***141,300***	***73,100***	***85,200***	***135,300***
Annual Averages:				
1988	143,000	68,400	82,200	124,900
1989	145,200	71,300	84,500	139,900
Percent Changes in May 1990 since:				
May 1989	-1.7	4.0	1.2	-4.8
Apr 1990	0.4	-2.9	-0.8	-1.7

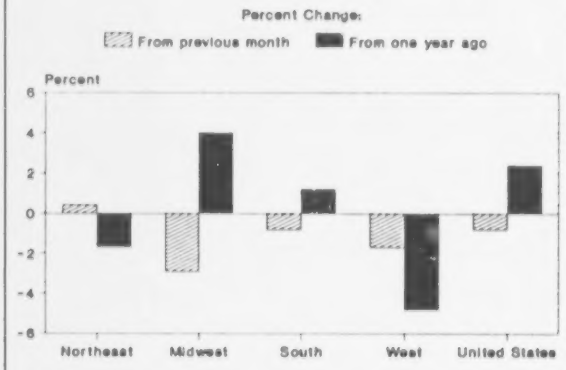
Source: NATIONAL ASSOCIATION OF REALTORS
Economics and Research Division

HOME PRICES



Source: Bureau of Census; E Real Estate Outlook forecast

HOME PRICES BY REGION



Source: NAR Economics & Research; Real Estate Outlook forecast

The median price for existing homes slipped for the third time in the past five months. The decline of 0.8 percent, or $800, in May left the price at $94,800. Relative to a year ago, the median price has risen $2,200, or 2.4 percent, from $92,900. The median price fell the furthest in the Midwest, where it dropped by 2.9 percent, or $2,200. The South and West each saw the median price fall, by 0.8 percent and 1.7 percent, respectively. In the Northeast, where the median-priced house is the costliest, the price rose by $600, or 0.4 percent. Relative to prices in May 1989, the costlier regions -- the Northeast and the West -- saw their median prices for existing homes rise, while the South and Midwest experienced price appreciation. The median price in the Midwest is now 52 percent of that in the Northeast, up from a 1989 average of 49 percent.

April's dramatic 13.8 percent increase in the median price of new homes was partially offset by May's 5.4 percent decline. The large increase during April indicated the thinness of the housing market for lower-priced new homes. The median price, $128,500, stands 8.0 percent above its year-ago level.

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PROPOSALS TO CHANGE FHA AND THEIR IMPACTS

The Historical Housing Mission of FHA

The U.S. Department of Housing and Urban Development (HUD) is proposing changes to the insurance premium and up-front fees required to obtain Federal Housing Administration (FHA) insurance in its single-family (Sec. 203(b)) program, designed to preserve the insurance fund's fiscal soundness over the next decade. These changes could have adverse impacts on many middle- and moderate-income potential home buyers.

The Federal Housing Administration was created in 1934 in response to the lack of available mortgage insurance during the Great Depression. The goal of the FHA was to insure mortgage loans against default, which in turn would encourage lenders to make mortgage funds available to homebuyers. Since its creation, the FHA has helped over 17 million families purchase homes.

Today, FHA is still needed in order to continue providing assistance to potential homebuyers who would not be able to afford homes without FHA programs. NAR survey data and reports by other organizations demonstrate that the FHA program serves borrowers who have lower annual incomes, make smaller downpayments, and purchase lower value homes than homebuyers who utilize private mortgage insurance. Recent Harvard University Joint Center for Housing reports indicate that married families with children and households from 25-34 years of age, significant FHA consumer groups, were among the primary groups with declining homeownership rates. Without FHA, and unless the FHA mortgage insurance program is strengthened and expanded, many potential homebuyers will not be able to buy homes.

Importance of the FHA Program

In 1989, FHA insured-loans represented 23 percent of all homes sold (on a transaction basis). Over the last six years, FHA has accounted for more than 18 percent of all home sales transactions.

This measures the importance of FHA on a national basis; however, it is important to stress that the FHA program has a much greater importance to particular states and metropolitan areas. Tables 1 and 2 provide 1989 figures for FHA insured loans on new and existing homes and NAR figures for existing (attached and detached) homes sold.

FHA activity is precluded from many market areas by the existing maximum loan limits. Thus, since FHA is involved in one out of every five home sales on a national basis, it is clear that many local housing markets are crucially dependent upon FHA. Given FHA's current exposure in these markets, the HUD proposals would significantly weaken the financial viability of the FHA Mutual Mortgage Insurance Fund (MMIF) because of sharp increases in claims and losses in vulnerable housing markets.

The Price Waterhouse Study

The Washington, D.C. office of the accounting firm of Price Waterhouse, under contract to HUD, performed an analysis of the claim termination (default) experience of the FHA Mutual Mortgage Insurance Fund. A statistical equation was fit to cohorts of FHA loans originated from 1975 through 1987, to forecast future conditional claim rates. The selected time span covers a period where home prices were rapidly rising (late 1970s), then falling (early 1980s), and default rates were relatively low in the late 1970s early 1980s. However, defaults increased substantially due to mismanagement, fraud, and abuse in the mid- to late-1980s.

Because the historical time period chosen forms an inherent path of five to seven years of low defaults and seven later years of high defaults, the model tends to overpredict claims in the 1990s based purely on the 1980s experience. It is not likely that this experience will be duplicated in the 1990s.

Individual statistical equations were separately fit for six loan-to-value ratio (LTV) classes. Each statistical equation was constructed from 12 origination years with a sequence of annual claim rates. The basic dependent (predicted) variable was the ratio of the annual number of defaults in the period to the beginning of the year survivors for a group (cohort) of mortgages originated in a

specified year (1975-1987). For a specified cohort, a series of up to 14 annual default rates is possible, representing the likelihood that a mortgage would enter default in a particular year given that it had not defaulted up to that point.

This model was used to simulate future defaults through the 1990s and projected an ultimate claim rate of about 12.5% (of FHA loans originated). By comparsion, the HUD Actuarial Division has forecast a long-term rate of at most 10%. For a variety of reasons, we believe that the PW model has overpredicted default rates for the 1990s and has thus chosen to make overly stringent recommendations. The consequence to the FHA program is that future FHA buyers will be required to pay much higher than necessary premiums and downpayments.

A Comparison of the Proposals

Table 3 presents a comparison of current FHA requirements, the HUD proposed changes, and the proposed Vento-Ridge amendment [introduced by U.S. Reps. Bruce Vento (D. - Minn.) and Thomas Ridge (R. - Pa.)] for a $65,000 home. Both the HUD and the Vento-Ridge proposals would restore the health of the Mutual Mortgage Insurance Fund (MMIF). Presented for the current FHA program, and the alternative proposals, are the following:

- Sales Price
- Financed Closing Costs
- Total Acquisition Cost
- Minimum Downpayment
- Mortgage Insurance Premium(MIP)
- Loan Amount before MIP
- Total Amount Financed
- FHA Loan-to-Value Ratio (LTV)
- True LTV
- Initial Cash Required
- Additional Closing Costs, and
- Total Up-front Cash Required of Borrowers at Settlement

Current Law

Under **current law**, a homebuyer who opts for FHA mortgage insurance would finance approximately $1,300 in allowable closing costs in the mortgage, resulting in a total acquisition cost of $66,300. The minimum downpayment required under current rules is $2,815, resulting in a loan amount before MIP of $63,485. The MIP is 3.8 percent of this amount, or $2,412 which is assumed to be financed in the loan. Total financed under current law would be $65,897. A true LTV on this transaction is 101.38 percent of the original sales price. As FHA calculates LTV (excludes the MIP premium from the calculation and uses the total acquisition cost as the base), this transaction has an LTV of 95.75 percent.

The amount of out-of-pocket cash required of the FHA borrower is the sum of minimum downpayment (initial cash required) plus those closing costs explicitly disallowed from financing (e.g., discount points, escrowed or pre-paid accounts, etc.). For this transaction, the up-front cash required is $4,115 -- $2,815 of which is the minimum downpayment and $1,300 is non-allowable closing costs. This is the baseline to which we compare the other options.

Administration/HUD Proposal

The **HUD proposal**, by comparison, would result in a higher up-front cash requirement of borrowers. The sales price is the same -- $65,000, but two-thirds of the formerly "allowable" closing costs must now be paid in cash at settlement. Of the $1,300 of closing costs which were formerly financed, only $433 can now be financed. For this proposal, the total acquisition cost is $65,433, and the minimum downpayment is $2,772. The loan amount before MIP is $62,661. The MIP is 3.8 percent of this amount or $2,381. The total amount financed is $65,042, resulting in a true LTV of 100.06 percent and an FHA LTV of 95.76 percent. Initial cash required is the sum of two components -- the $2,772 minimum downpayment plus the disallowed 2/3rds of closing costs of $867 -- or $3,639. After adding the additional closing costs which also cannot be financed ($1,300), the up-front cash requirement for borrowers under this proposal is $4,939 -- a 20 percent increase in out-of-pocket expense at closing as compared to current law.

Vento-Ridge Proposal

Under the **Vento-Ridge plan**, the FHA mortgage insurance premium would return to a pay-as-you-go system, such as the one it successfully operated under until 1982. Once the plan is phased in, borrowers would be required to pay closing costs and a 1.35 percent up-front premium, but both could be financed. An additional premium, as yet undetermined, would be assessed each year for the

life of the loan.

The 1.35 percent up-front premium would be non-refundable and therefore would improve the Mutual Mortgage Insurance Fund (MMIF) financial reserves. Currently, a portion of the up-front premium is returned to borrowers who prepay their loans if there were no losses on the total amount of mortgages written in the year the loan was originated.

In the above examples, the up-front cash required at settlement would be the same as under the baseline, or $4115. This will hold true during and after the phase in to a 1.35 percent up-front premium in the sixth year. The sales price, allowable closing costs, total acquisition cost, minimum down payment and loan amount before the MIP is identical to the baseline during the phase-in period. The MIP required up-front declines from $2,381 in year one to $1,365 in year three and finally to $857 in year six. The total amount financed in years one, three, and six are $65,866, $64,850, and $64,342, respectively. The FHA LTV for all three years is the same as the baseline -- 95.75 percent. The true LTV declines from 101.33 percent in year one to 98.99 percent in year six.

Adverse Selection and Risk Based Premiums

An important conclusion from the Price Waterhouse analysis underlying the HUD proposal is the belief that risk based premiums will eliminate adverse selection to the FHA program. Price Waterhouse states that the current structure of the FHA mortgage insurance program creates a situation where the riskiest homebuyers select FHA over the conventional mortgage market. This occurs two ways: 1) those potential homebuyers who have little savings and cannot qualify for a loan in the conventional market select FHA; and 2) those homebuyers who do have savings select FHA and put down the bare minimum as required by FHA guidelines.

This second group, Price Waterhouse contends, when faced by the choice of higher premiums over time versus putting more down at settlement will opt to make a large downpayment to reduce their future outlays. The first group is the segment of current FHA homebuyers who Price Waterhouse has determined will "have to wait longer to purchase a home due to the increased cash needed at closing", i.e., this group will be denied FHA mortgage insurance. Requiring more from the already lower risk group and denying mortgage insurance to the highest risk group will change the level of risk entering the FHA "book of business" in future years. Unfortunately, the Price Waterhouse analysis did not include a market analysis of this premise, e.g., will the lower risk group pay more or will they opt to insure their home purchase through the conventional market?

Their assumption is that homebuyers will respond to the "real" cost (net present value) of buying a home, and not the "nominal" cost. Economic research of consumer response to increases in costs on durable goods indicate that consumers are much more responsive to changes in nominal prices, and not real prices. The lower risk homebuyer who is currently selecting the FHA mortgage insurance program will respond to the increased cash requirements under the HUD proposal by making a price comparison between FHA and private mortgage insurance and will select to leave the FHA program. They will not, as assumed by Price Waterhouse, simply pay significantly more at closing to avoid a slight increase in mortgage payments over time.

A substantive weakness of the Price Waterhouse study is that the loss of low-risk homebuyers from the FHA Mutual Mortgage Insurance program was not modeled. The HUD proposals will effectively weaken the MMIF by eliminating the current level of cross subsidization by the low-risk homebuyers, and will result in introducing more, not less, risk into all future FHA "books of business".

Estimated Number of Households Excluded from FHA due to HUD Proposal

There are two effects which will prevent potential homebuyers from using the FHA mortgage insurance program under the HUD proposal. The increase in closing costs combined with the risk based premium structure will displace approximately 93,000 homebuyers. The estimates for each are provided below:

Increase in Closing Costs. The HUD proposal would disallow two-thirds of currently allowable closing costs from the FHA mortgage loan. For the average 1989 FHA loan (approximately $70,000), the HUD proposal would raise the out-of-pocket transaction costs by approximately $935. A rule of

thumb is that approximately 60,000 households would not qualify for a home for every one percent increase in closing costs. Thus, 80,150 estimated households would be displaced.

Risk Based Premium. The HUD proposal also includes a risk based surcharge based on the initial FHA Loan-to-Value (LTV). The surcharge is a .5 percent annual premium collected monthly with the mortgage payment. The duration of the surcharge varies depending upon the initial LTV, and ranges from 4 years to 15 years for the highest LTV class. FHA homebuyers who make a 10 percent or greater downpayment are not charged. A rule of thumb is that approximately 300,000 households would not qualify for a home for every one percent increase in the monthly mortgage interest rate. The HUD proposal would raise the average monthly contract rate by .042%. The estimated number of households who would be displaced by the increase in monthly mortgage payment is 12,600.

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Table 1

Existing Home Sales And FHA Mortgages Endorsed

(Calender Year 1989, by State)

	FHA ENDORSEMENTS							
	New Construction		Existing Construction		Totals		Existing Home Sales	S-F Housing Starts
State	Units	Mortgage Amount (000s)	Units	Mortgage Amount (000s)	Units	Mortgage Amount (000s)		
Alabama	1,300	$83,154	6,744	$357,269	8,044	$440,423	51,100	11,512
Alaska	52	6,517	2,820	228,258	2,872	234,775	7,100	1,260
Arizona	3,257	268,503	17,694	1,129,751	20,951	1,398,254	63,400	20,844
Arkansas	923	50,978	7,444	346,658	8,367	397,636	47,500	7,462
California	15,075	1,370,075	49,125	4,025,795	64,200	5,395,870	538,800	161,877
Colorado	807	68,777	25,957	1,633,119	26,764	1,701,896	43,800	9,509
Connecticut	221	20,286	2,978	281,701	3,199	301,987	51,400	8,550
Delaware	95	6,721	867	62,341	962	69,062	12,800	4,914
District of Columbia	11	850	1,158	86,258	1,169	87,108	9,000	96
Florida	9,160	617,604	29,416	1,743,949	38,576	2,361,553	185,900	106,737
Georgia	1,232	88,671	18,920	1,284,708	20,152	1,373,379	82,000	41,579
Hawaii	881	95,917	1,900	204,395	2,781	300,312	12,100	6,391
Idaho	643	41,873	5,244	259,580	5,887	301,453	13,500	4,799
Illinois	741	62,495	25,409	1,662,711	26,150	1,725,206	187,900	6,398
Indiana	1,233	91,407	15,072	744,854	16,305	836,261	87,700	32,386
Iowa	55	3,591	5,560	243,314	5,615	246,905	52,900	21,083
Kansas	324	22,911	7,021	365,346	7,345	388,257	45,100	8,325
Kentucky	371	21,839	6,297	313,271	6,668	335,110	70,700	13,810
Louisiana	659	45,161	9,034	492,328	9,693	537,489	35,400	6,694
Maine	32	2,605	1,131	81,527	1,163	84,132	30,400	5,697
Maryland	3,921	336,250	19,306	1,517,194	23,227	1,853,444	82,000	31,961
Massachusetts	4	289	1,013	93,698	1,017	93,987	86,500	15,437
Michigan	163	9,485	16,407	733,831	16,570	743,316	178,600	32,147
Minnesota	3,650	304,362	21,747	1,433,348	25,397	1,737,710	72,800	19,909
Mississippi	576	36,421	4,982	251,471	5,558	287,892	31,500	7,360
Missouri	859	59,441	13,789	756,686	14,648	816,127	83,800	17,438
Montana	185	11,687	3,719	186,473	3,904	198,160	12,700	945
Nebraska	515	33,969	5,299	246,290	5,814	280,259	24,000	4,221
Nevada	3,493	274,895	5,308	364,375	8,801	639,270	12,900	16,733
New Hampshire	5	455	345	30,299	350	30,754	12,700	5,701
New Jersey	113	8,745	5,337	402,276	5,450	411,021	128,000	23,467
New Mexico	704	49,133	3,517	216,030	4,221	265,163	19,100	5,067
New York	478	37,238	16,055	980,101	16,533	1,017,339	198,300	30,434
North Carolina	2,013	143,365	15,311	953,209	17,324	1,096,574	132,800	50,236
North Dakota	113	7,509	2,661	126,479	2,774	133,988	11,700	1,157
Ohio	1,416	99,043	26,375	1,321,352	27,791	1,420,395	189,100	30,928
Oklahoma	750	50,335	10,122	478,918	10,872	529,253	53,600	5,961
Oregon	459	32,057	6,560	356,024	7,019	388,081	59,700	11,441
Pennsylvania	155	10,549	15,893	880,085	16,048	890,634	242,900	38,109
Rhode Island	7	608	1,720	165,397	1,727	166,005	12,900	2,839
South Carolina	551	38,252	6,121	336,194	6,672	374,446	60,200	16,200
South Dakota	155	10,727	1,982	91,686	2,137	102,413	14,400	1,458
Tennessee	1,209	78,270	18,082	1,060,507	19,291	1,138,777	105,400	24,010
Texas	5,714	439,084	52,747	3,006,805	58,461	3,445,889	229,300	36,864
Utah	1,421	97,092	8,190	442,005	9,611	539,097	14,400	6,019
Vermont	1	85	146	11,078	147	11,163	11,900	3,215
Virginia	2,949	216,374	20,445	1,478,191	23,394	1,694,565	100,300	43,318
Washington	1,141	90,526	17,542	1,162,626	18,683	1,253,152	61,100	25,722
West Virginia	25	1,383	1,681	81,265	1,706	82,648	45,900	1,966
Wisconsin	56	4,001	4,148	205,933	4,204	209,934	70,300	16,341
Wyoming	54	3,834	3,001	148,115	3,055	151,949	6,000	691
U.S. Totals	**69,927**	**$5,455,399**	**569,342**	**$35,065,074**	**639,269**	**$40,520,473**	**3,993,300**	**1,007,218**

Note: Total Existing Home Sales includes single family apartment condos and co-ops.

Sources: Federal Housing Administration, A43(SFIS) Database, Office of Management, Housing Information & Statistics Division, March 4, 1990; NAR Economics & Research Division.

Table 2

FHA Endorsements Relative to Home Sales and Housing Starts

(Calender Year 1989, by State)

State	New Construction Units	S-F Housing Starts	State Share (%)	Existing Construction Units	Existing Home Sales	State Share (%)
Alabama	1,300	11,512	11.29	6,744	51,100	13.20
Alaska	52	1,260	4.13	2,820	7,100	39.72
Arizona	3,257	20,844	15.63	17,694	63,400	27.91
Arkansas	923	7,462	12.37	7,444	47,500	15.67
California	15,075	161,877	9.31	49,125	538,800	9.12
Colorado	807	9,509	8.49	25,957	43,800	59.26
Connecticut	221	8,550	2.58	2,978	51,400	5.79
Delaware	95	4,914	1.93	867	12,800	6.77
District of Columbia	11	96	11.46	1,158	9,000	12.87
Florida	9,160	106,737	8.58	29,416	185,900	15.82
Georgia	1,232	41,579	2.96	18,920	82,000	23.07
Hawaii	881	6,391	13.79	1,900	12,100	15.70
Idaho	643	4,799	13.40	5,244	13,500	38.84
Illinois	741	6,398	11.58	25,409	187,900	13.52
Indiana	1,233	32,386	3.81	15,072	87,700	17.19
Iowa	55	21,083	0.26	5,560	52,900	10.51
Kansas	324	8,325	3.89	7,021	45,100	15.57
Kentucky	371	13,810	2.69	6,297	70,700	8.91
Louisiana	659	6,694	9.84	9,034	35,400	25.52
Maine	32	5,697	0.56	1,131	30,400	3.72
Maryland	3,921	31,961	12.27	19,306	82,000	23.54
Massachusetts	4	15,437	0.03	1,013	86,500	1.17
Michigan	163	32,147	0.51	16,407	178,600	9.19
Minnesota	3,650	19,909	18.33	21,747	72,800	29.87
Mississippi	576	7,360	7.83	4,982	31,500	15.82
Missouri	859	17,438	4.93	13,789	83,800	16.45
Montana	185	945	19.58	3,719	12,700	29.28
Nebraska	515	4,221	12.20	5,299	24,000	22.08
Nevada	3,493	16,733	20.87	5,308	12,900	41.15
New Hampshire	5	5,701	0.09	345	12,700	2.72
New Jersey	113	23,467	0.48	5,337	128,000	4.17
New Mexico	704	5,067	13.89	3,517	19,100	18.41
New York	478	30,434	1.57	16,055	198,300	8.10
North Carolina	2,013	50,236	4.01	15,311	132,800	11.53
North Dakota	113	1,157	9.77	2,661	11,700	22.74
Ohio	1,416	30,928	4.58	26,375	189,100	13.95
Oklahoma	750	5,961	12.58	10,122	53,600	18.88
Oregon	459	11,441	4.01	6,560	59,700	10.99
Pennsylvania	155	38,109	0.41	15,893	242,900	6.54
Rhode Island	7	2,839	0.25	1,720	12,900	13.33
South Carolina	551	16,200	3.40	6,121	60,200	10.17
South Dakota	155	1,458	10.63	1,982	14,400	13.76
Tennessee	1,209	24,010	5.04	18,082	105,400	17.16
Texas	5,714	36,864	15.50	52,747	229,300	23.00
Utah	1,421	6,019	23.61	8,190	14,400	56.88
Vermont	1	3,215	0.03	146	11,900	1.23
Virginia	2,949	43,318	6.81	20,445	100,300	20.38
Washington	1,141	25,722	4.44	17,542	61,100	28.71
West Virginia	25	1,966	1.27	1,681	45,900	3.66
Wisconsin	56	16,341	0.34	4,148	70,300	5.90
Wyoming	54	691	7.81	3,001	6,000	50.02
U.S. Totals	**69,927**	**1,007,218**	**6.94**	**569,342**	**3,993,300**	**14.26**

Note: Total Existing Home Sales includes single family apartment condos and co-ops.

Sources: Federal Housing Administration, A43(SFIS) Database, Office of Management, Housing Information & Statistics Division, March 4, 1990; NAR Economics & Research Division.

Table 3

Loan Financing Analysis of Various FHA Options

Variable	Current Law	HUD Proposal	Vento/Ridge 1st Year	Vento/Ridge 3rd Year	Vento/Ridge 5th Year
A. Selling Price	65,000	65,000	65,000	65,000	65,000
B. Financable Closing Costs (1)	1,300	433	1,300	1,300	1,300
C. Acquisition Costs	66,300	65,433	66,300	66,300	66,300
D. Down Payment	2,815	2,772	2,815	2,815	2,815
(Non-financable closing Costs)	0	867	0	0	0
E. Loan Amount Before MIP	63,485	62,661	63,485	63,485	63,485
F. MIP	2,412	2,381	2,381	1,365	857
G. Total Financed	65,897	65,042	65,866	64,850	64,342
H. FHA LTV (%) (3)	95.75	95.76	95.75	95.75	95.75
I. True LTV (4)	101.38	100.6	101.33	99.77	98.99
J. Initial Cash Required	2,815	3,639	2,815	2,815	2,815
K. Additional Closing Costs (2) (Loan Orgination & Escrow)	1,300	1,300	1,300	1,300	1,300
L. Up-front Cash Required of Borrower	4,115	4,939	4,115	4,115	4,115

(1) HUD allows up to 3% of selling price; assumes 2% based on historical data.
(2) One discount point for loan and one point for prepaid escrow (currently cannot be financed). (Total closing costs of 4%)
(3) Loan amount before MIP amount divided by Aquisition Cost (Line E divided by Line C).
(4) Total Financed divided by Selling Price (Line G divided by Line A).
Notes: PMI case represents typical PMI pricing of 95%. LTV mortgage assumes 1.25% premium at settlement.

U.S. Economic Outlook: July 1990

	89.4	90.1	90.2	90.3	90.4	91.1	91.2	91.3	1988	1989	1990	1991	1992
U.S. Economy													
Average Annual Growth Rate													
Real GNP	1.1	1.9	1.7	1.5	1.9	2.0	2.5	2.1	4.4	3.0	1.8	2.1	2.6
Industrial Production	0.2	0.7	4.1	0.8	1.8	1.7	2.8	2.5	5.4	2.6	1.2	2.1	3.2
Civilian Employment	1.0	1.0	0.8	0.9	0.1	0.9	1.1	1.1	2.3	2.0	0.9	0.8	1.4
GNP Inflation Index	3.2	5.4	4.3	4.0	3.8	4.2	4.1	4.0	3.3	4.2	4.2	4.1	4.0
Consumer Prices	4.0	8.1	3.6	4.0	4.4	4.5	4.7	4.6	4.1	4.8	4.9	4.4	4.5
Value of the U.S. Dollar	-12.2	-16.0	-2.9	-5.0	-9.8	-5.7	-2.6	0.9	-4.3	6.2	-7.2	-4.4	0.6
Percent													
Mfg. Capacity Utilization	82.9	82.6	83.0	82.3	82.4	82.4	82.6	82.8	83.9	83.9	82.6	82.7	83.4
Civilian Unemployment	5.3	5.3	5.3	5.4	5.6	5.6	5.7	5.7	5.5	5.3	5.4	5.7	5.6
Percent of GNP													
Federal Tax Receipts	19.8	20.0	20.0	20.1	20.4	20.6	20.6	20.6	19.9	20.0	20.1	20.6	20.6
Federal Expenditures	22.7	23.1	22.7	22.5	22.4	22.5	22.4	22.2	22.9	22.9	22.7	22.3	21.7
Federal Budget Deficit	-2.9	-3.1	-2.7	-2.5	-2.0	-2.0	-1.8	-1.7	-3.0	-2.8	-2.6	-1.7	-1.1
Interest Rates, Percent													
Federal Funds Rate	8.6	8.3	8.3	8.2	8.3	8.3	8.3	8.2	7.6	9.2	8.2	8.3	8.1
3-Month T-Bill Rate	7.7	7.8	7.8	7.7	7.7	7.6	7.6	7.5	6.7	8.1	7.7	7.5	7.1
Prime Rate	10.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.3	10.9	10.0	10.0	9.8
Discount Rate	7.0	7.0	7.0	7.0	7.1	7.2	7.3	7.3	6.2	6.9	7.0	7.3	7.0
Corporate AAA Bond Yield	8.9	9.2	9.4	9.2	9.2	9.1	9.0	8.9	9.7	9.3	9.2	9.0	8.7
30-Year Government Bond Yield	7.9	8.4	8.6	8.5	8.5	8.4	8.4	8.3	9.0	8.4	8.5	8.3	8.1
Mortgage Rates, Percent													
30-Year Fixed Rate	9.8	10.1	10.2	10.1	10.1	10.0	9.9	9.8	10.3	10.3	10.1	9.9	9.6
1-Year Adjustable	8.8	8.6	8.5	8.4	8.4	8.4	8.5	8.5	8.5	9.3	8.5	8.5	8.4
Home Sales													
Thousands													
Total Single-Family (Single-family resales plus 97% of single-family starts)	4,495	4,491	4,224	4,253	4,309	4,375	4,400	4,418	4,646	4,419	4,319	4,397	4,416
Existing Single-Family	3,537	3,440	3,344	3,361	3,397	3,417	3,427	3,444	3,594	3,440	3,386	3,427	3,444
New Single-Family	652	593	585	581	584	590	595	602	676	650	586	599	610
Housing Starts	1,347	1,454	1,226	1,243	1,260	1,322	1,345	1,352	1,491	1,386	1,295	1,346	1,392
Single-Family Units	988	1,083	907	919	940	987	1,002	1,003	1,085	1,009	962	1,000	1,002
Multi-Family Units	359	371	319	324	319	334	342	348	405	376	333	346	390
2-4 Family Units	53	43	37	37	37	39	40	40	58	55	38	40	45
5+ Family Units	359	371	319	324	319	334	342	348	405	376	333	346	390
Mobile Homes Shipped	189	196	196	191	186	192	194	194	217	198	192	194	197
Percent change -- Year Ago													
Total Single-Family	-7.8	0.0	-3.8	-3.5	-4.1	-2.6	4.2	3.9	0.0	-4.9	-2.3	1.8	0.4
Existing Single-Family	-6.2	-1.1	-2.5	-2.4	-4.0	-0.7	2.5	2.5	1.9	-4.3	-1.6	1.2	0.5
New Single-Family	-4.0	-5.1	-8.3	-16.9	-10.5	-0.6	1.7	3.6	0.4	-3.8	-9.9	2.2	1.9
Housing Starts	-12.7	-3.4	-9.5	-7.1	-6.5	-9.1	9.7	8.8	1.3	-12.7	-6.5	8.6	2.8
Single-Family Units	-12.4	1.8	-8.6	-7.6	-4.8	-8.8	10.6	9.2	4.6	-12.4	-4.8	7.3	-0.9
Multi-Family Units	-13.5	-15.9	-12.0	-5.4	-11.1	-10.0	7.5	7.6	-6.6	-13.5	-11.1	12.3	13.2
2-4 Family Units	-15.3	-26.6	-30.2	-32.5	-30.0	-10.0	7.5	7.6	13.2	-15.3	-30.0	12.3	13.2
5+ Family Units	-13.1	-14.3	-8.8	-0.1	-7.8	-10.0	7.5	7.6	-9.4	-13.1	-7.8	12.3	13.2
Median Home Prices													
Thousands of Dollars													
Existing Home Prices	92.7	95.9	94.7	96.4	97.1	98.4	98.6	99.8	89.3	93.1	96.0	99.5	103.3
New Home Prices	124.4	123.2	124.7	125.9	127.4	129.0	130.9	132.4	112.5	120.0	125.3	131.5	137.7
Percent Change - Year Ago													
Existing Home Prices	6.2	5.2	2.0	1.6	4.8	2.6	4.1	3.6	4.3	4.3	3.2	3.6	3.8
New Home Prices	9.8	5.3	2.1	5.3	2.4	4.7	4.9	5.1	7.7	6.7	4.4	4.5	4.6

Source: Forecast produced using Laurence H. Meyer & Associates' model of the U.S. economy.
Assumptions and simulations by Dr. John Tuccillo and Robert Barr.

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